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REPLY TO THE BRIEF PRESENTED TO THE
GOVERNMENT OF CANADA
FOLLOWING THE 27TH ANNUAL CONFERENCE OF THE
PROVINCIAL MINISTERS OF MINES

by

THE HONOURABLE J.J. GREENE

MINISTER OF ENERGY, MINES AND RESOURCES

CONFERENCE OF PROVINCIAL MINISTERS OF MINES
FOLLOWING THE 27TH ANNUAL CONFERENCE HELD LAST WEEK IN
VICTORIA, BRITISH COLUMBIA, ON THE SUBJECT OF MINING REGULATION

The general atmosphere in which these conferences are convened provides an excellent opportunity for the discussion of policy matters of mutual concern affecting the mineral industry. Although I will be addressing myself to the specific items raised in your brief, I would like first to comment on several issues fundamental to the continued development of our respective governments in Canada.

To achieve the coordination of mineral development, I believe that mineral policy should seek automatically reflect a set of relationships, but one the most fundamental relationships between mineral development and the private mineral sector, regulation, mining, mining, refining, marketing, and the

September 13, 1971

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In responding, on behalf of the Government of Canada, to the brief submitted by Provincial Ministers of Mines following the 27th Annual Conference held last year in Winnipeg, Manitoba, may I express my personal appreciation for the cordial welcome afforded to me and other federal observers by our hosts. This is the fourth occasion on which I have had the opportunity of participating in your conferences and in renewing my contact with those who share in the proceedings.

The congenial atmosphere in which these conferences are convened provides a welcome opportunity for the discussion of policy matters of mutual concern affecting the mineral industry. Although I will be addressing myself to the specific items raised in your brief, I would like first to comment on several issues fundamental to the broad management roles of our respective governments in Canada.

To enhance the contribution of minerals to future development, I suggest that mineral policy should more systematically reflect a set of relationships. What are the main relationships between minerals and national development? First, there are the internal linkages within the private mineral sector, exploration, mining, smelting, refining, fabricating, and the

various activities of further processing up to and including mineral-based manufacturing. The respective contribution of each stage of activity to the provincial and national economies can be seen, for example, in terms of employment, use of domestically produced materials, value added to exports, reinvestment of profits for future growth, and government revenue. These indicators denote feedback into the economy. Increasingly, environmental quality protection and income stability are important considerations along with a need to harmonize multiple resource development, e.g. water, forestry, fishing, parks and minerals.

Another set of linkages relates mineral sector activities to regional development including the North. In this context, it would be interesting to identify the type and degree of dependency of urban areas on the mineral producing areas of the various regions. That is, how much income and employment is generated in urban centres by minerals having been extracted from a remote centre. Equally interesting, would be a study on whether or not mineral producing areas can support more viable and stable growth centres. In this context, the social component must be more adequately reflected in mineral policy so as to contribute fully to the solution of problems related to rural-urban shifts, regional disparities, community stability, and native employment and training.

Another relationship pertains to the debate on science policy and the contribution of mineral science and technology to broad national goals. In this context, we should ask ourselves, is there sufficient private and public effort, on research and development for new materials, on new techniques of production and processing, on patenting and issuing licences from Canada, on identifying potential technological spin-offs for other sectors, on employing Canadian researchers, on utilizing lower-grade deposits, and on maintaining a long-term competitive position in world markets? It follows that we should examine the degree to which the Canadian industrial structure and investment climate are conducive to success in these types of endeavours.

Another fundamental linkage concerns minerals and international relations. Good international relations can

have significant practical meaning for Canadians. Insofar as Canada provides a politically stable area for foreign investment in resources, friendly relations with other nations are enhanced, especially with such industrialized countries as the United States. On the other hand, since we have a very open economy relative to most industrial and developing countries, there is some risk of over-reaction by foreign investors to even modest changes in policies designed to increase Canada's ability to attain her own national aspirations. Nevertheless, we must weigh the cost of foreign ownership against its contribution to social and economic wealth, insofar as public opinion feels that national resources are a vital component of a foreign ownership policy. We must ensure that any judgments made are based on facts - facts that will demonstrate to other nations the sense of equity, appreciation, and fair-play of Canadians. These facts must not neglect the degree to which decisions of various foreign governments and multi-national firms in the mineral industry are consistent with the national interest.

In sum, I have identified some of the more important interdependent policy areas close to minerals, namely regional disparities and northern development, foreign ownership and control, rural adjustment, science policy, environmental quality, foreign trade, and general international relations. Mineral taxation, a subject of current interest to us all, I will deal with in a moment.

However, there is also another category of interdependence which is suggested by the proceeding. That is, federal-provincial relations and government-industry relations. These are vital to any proper assessment of the mineral sector's contribution to national wealth. Each of the above policy areas transcends in varying degrees and ways all levels of government and the mineral industry. There is a continuing challenge to attain concensus on national issues and to retain paramountcy on matters within specific jurisdictions. In this respect, I will shortly be announcing the membership of the National Advisory Committee on the Mining Industry which will assist me in understanding the problems of the industry and I hope also assist them in understanding some of the problems of government.

Finally, I would mention the relationship between past mineral policies and future ones. The nature of this

link is dependent on the changing events of today's world, what we anticipate will happen in the future, what we wish to achieve and how. If it were possible that Canada's mineral resource endowment in its various regions would remain competitive with certainty for fifty years, then policies designed to ensure continuing mineral contribution to wealth would no doubt differ from policies that were based on a 15-year span. Nevertheless, continuity of policies, and hence our system of values is an important factor to our conception of wealth and methods for its continuance. It is, therefore, important to have a long-run perspective within which we may assess short-term policies and programs. In brief, this accentuates the need to continually keep mineral and energy policies under review while developing a comprehensive framework within which to evaluate domestic strategies; say, for example, domestic strategies in relation to foreign resource procurement and development strategies; domestic strategies in relation to the sale of mineral surpluses; and domestic strategies on the use of minerals to further regional and national development while resources last.

EMERGENCY GOLD MINING ASSISTANCE ACT

At your last Conference, I indicated the intention of the federal government to introduce a Bill into Parliament extending the Emergency Gold Mining Assistance Act for a period of two and one-half years to June 30, 1973. You will recall that the Bill received first reading in the House on October 19, 1970, and subsequently became law.

In my statement to the House on second reading of the Bill, I indicated that the federal government was prepared to consider a further extension of the Act beyond June 30, 1973, provided satisfactory arrangements could be made to have the provinces concerned and other interested parties share fully in the responsibility for aiding in the adjustment of the gold mining communities.

In the intervening period, a federal interdepartmental committee, including my Department, was formed to co-ordinate various existing federal programs which provide aid to the gold mining communities. Discussions have been held with provincial officials in the two provinces mainly affected by the decline in gold mining operations - Ontario and Quebec.

Because the development of new mines appears to offer the most effective way of adding economic support to the gold mining communities, I directed my Department to initiate an examination of the ways and means of encouraging mineral exploration in the gold mining areas by convening a Workshop last May. Representatives of the Mines Departments of Quebec and Ontario and of the mining industry were active participants. The general conclusions drawn from the proceedings of the Workshop was that the mining industry could be encouraged to expand exploration in the gold mining areas through the provision of additional geoscientific information by the governments concerned.

In response to this conclusion the priorities of the Geological Survey of Canada have been altered to permit field work to be carried out this year in the gold mining areas. The provincial Mining Departments are also taking steps to encourage exploration in these regions. Most recently, I was interested to learn of Ontario's plan to implement a mineral exploration incentive program in which a total of up to \$1 million is to be available this fiscal year.

Although substantial progress has been made in attacking the problems of the gold mining communities, I believe further evidence of participation by the provinces and other interested parties in alleviating the problems of the gold mining communities is necessary before the federal government could reach a decision to extend EGMA beyond June 30, 1973.

PROPOSED RADIOACTIVE ORE REMOVAL PERMITS

Last year, I presented to you a proposal involving the discontinuance of the Exploration Permit issued by the Atomic Energy Control Board and its replacement with a "Radioactive Ore Removal Permit". Let me say at this point,

it is not the intention of the federal government to regulate or control exploration; and indeed the word exploration in the title of the Board's 'Exploration Permit' is a misnomer. However, the new permit will be designed to reflect more accurately the federal government's need to be aware of developments in this important sector of Canada's natural resources. In your brief following the 27th Conference, you asked that any regulations regarding the proposed permit be circulated to provincial authorities for comment prior to the enactment.

These draft regulations have not yet been circulated as a result of my Government's decision to implement by legislation, rather than by regulation, its announced policy regarding foreign ownership of uranium operations and the consequent deferment of further consideration of proposed permit pending the drafting of new legislation. In spite of a heavy legislative workload, the drafting of the new ownership legislation has progressed to the point where I am optimistic that it will be introduced in the House of Commons during the forthcoming session of Parliament. In my view, the details of the ownership legislation should be cleared away before we move forward with our proposal with regard to the Board's 'Ore Removal Permit'. The actual concepts of the permit are well advanced and I would hope that officials of the Board and my Department will be approaching the provinces through the Deputy Ministers to obtain their views just as soon as we are able.

EXPORT OF NATURAL GAS

Shortly after the resolution was passed at your last Conference concerning decisions on the export of natural gas, the Cabinet accepted recommendations of the National Energy Board contained in its report of August, 1970, which had found that a surplus of 6.4 trillion cubic feet was then available for export. Export licences were issued to the successful applicants in the amount of this surplus. In July of this year, the National Energy Board commenced another major export hearing to determine whether there was at that time an export surplus which would be available to companies that had filed export applications subsequent to the 1970 hearings. The

recommendations from the National Energy Board regarding its findings are expected shortly, at which time the federal government will immediately proceed with its customary review of the Board's recommendations. The National Energy Board gas export hearings involve careful consideration of important matters of national and regional interest, but every effort is made to expedite the proceedings and final decision. This process is now greatly helped through the increase from five to seven in the membership of the Board as authorized in 1970.

MINERAL STATISTICS

In response to your recommendation to have federal representatives participate in a task force on mineral statistics, officials of both Statistics Canada (formerly the Dominion Bureau of Statistics) and the Department of Energy, Mines and Resources became involved in the project. Many of the policy elements and problems that I have raised require both new and improved data. The development of improved data on a wider range of subjects is essential if the decision-making capabilities of government, industry, and the public are to be maintained, let alone advanced.

FUELS AND RESEARCH TESTING

A request was made in your brief for an expansion of the fuels research and testing facilities operated in western Canada by my Department.

Discussions with the Research Council of Alberta and with the Coal Producers Association are in progress to determine the best means of expanding the facilities for fuel research and testing. It is expected that a final decision may be made before the end of 1971.

CANADIAN SYSTEM FOR GEOSCIENCE DATA

With regard to recent progress in developing a national system for computer-based storage and retrieval of geoscience data, my Department has appointed an Advisory Board to the Canadian Centre for Geoscience Data which includes amongst its ten members three Provincial Deputy Ministers of Mines nominated by your Conference. I am hopeful that this representation will enable the Provinces to share in the overall responsibility of shaping the Canadian System for Geoscience Data, along with the Federal Government, industry and the universities. At its first meeting, held last April, the Board was informed of the present status of the Canadian Index to Geoscience Data, to which four provinces are now contributing regularly, and of the implementation at the Centre of a generalized computer system called SAFRAS*, which will facilitate the development of a national data network.

DOMESTIC PRICE FOR COPPER

The Federal Government has appointed an interdepartmental committee to examine all facets of the copper supply-price problem, and to recommend a course of action to be followed in the future that will be fair to all segments of the industry and in the best interest of Canada. This committee is presently evaluating the recommendations presented to it by a Special Working Group chosen from among its own members. The concern expressed by the Ministers will be given full consideration.

STABILITY OF WASTE EMBANKMENTS

In response to your request that my Department arrange for the preparation of guidelines for the construction of waste embankments, a report entitled "Draft, Tentative Design Guide for Mine Waste Embankments in Canada" will be presented to Committee No. 1 during this Conference.

* SAFRAS: Self-Adaptive Flexible Retrieval and Storage System.

TAX REFORM

With the introduction of Bill C-259 which was given first reading in the House of Commons on June 30, 1971, the lengthy process of reforming the Income Tax Act is nearing its final stages.

I should like to repeat and enlarge upon some of the remarks which I made on the subject in the House of Commons on June 23, 1971, during the Budget Debate.

The tax reform proposals introduced by my colleague, the Minister of Finance, are indeed of historic importance. The process of their development beginning in 1962 included opinion and comment from individuals, institutions, industry, the provinces, parliamentary committees, and, of course, the Royal Commission on Taxation. The degree of national involvement and the ways in which the proposals are sensitive to a diversity of national needs demonstrate clearly that interested Canadians do have a voice in the formulation of national policies and priorities. The sometimes overworked phrase "participatory democracy" has real meaning.

The proposals also represent a milestone in public policy towards the Canadian mineral industry. Tax incentives undoubtedly played a major role in developing the Canadian mineral industry to its present status as the world's third largest. Overall, it is now a strong, vigorous sector of the economy. We are at the stage, therefore, when it is appropriate to reshape the historic incentives to the industry, with a view to making them more efficient and responsive to present and foreseeable Canadian needs. The replacement of the three-year exemption for new mines at the end of 1973 and the automatic depletion deduction at the end of 1976 by special accelerated depreciation measures and earned depletion provisions, are major changes. In my view, these changes have retained a clear recognition of the importance of the mineral sector to the nation and an appreciation by the government of the need for a measure of continued incentive.

I believe it is important to underscore the fact that ours is a mixed private-public enterprise system and that a viable mineral industry in the private sector is an essential

and fundamental component. Let me point out at the very start that when I use the term mineral industry, I mean to include both mineral and energy based industries. These sources of income permit us to pursue other national goals more fully and with greater flexibility. The retention of special incentives along lines that reflect more directly the needs of the industry and that relate more closely to overall mineral policy elements is an important shift; it represents one dimension of the approach to resource management by governments. By this I mean that, if minerals are to make a maximum contribution to national development, the specific policy instruments available, including tax policy, must be more finely tuned.

The tax proposals for the mining and petroleum industries do reflect the risk involved in mineral ventures, the international competition for capital, the incentives available in other countries, and world market conditions. The proposals also provide a five-year period in which to plan and adjust to the new system. Also of importance is the fact that profitable ventures will bear a fair share of taxation.

We don't just have - or encourage - a mineral industry to be healthy and dynamic merely for its own sake. Undiscovered minerals lying fallow in the ground are of no value to a nation; they are only of value when discovered and put to the use of the nation, and when their production is of net value to the economy. We have gone a long way to realizing the value of our mineral heritage. However, we have, as I implied earlier, further to go in such important value related areas as further processing before export, mineral-based manufacturing, increased Canadian ownership, and protection of the environment.

In view of particular interest which those assembled here have in the subject perhaps I may be permitted to continue by elaborating on some of the provisions of the Tax Reform Bill and indicate their implications for the industry, for our international competitive position, and for the achievement of our mineral and energy policy objectives.

The proposed change to broader accelerated depreciation allowance in lieu of the three-year tax holiday will allow all new mines to recover fully their original investment before tax liability - thus allowing for the high risks of mineral exploration - while avoiding the windfall profits that accrued to some operations under the tax holiday provision. Expenditures on major expansions at existing mines will also qualify for accelerated depreciation. The mine assets to which the accelerated depreciation will apply include exploration and development costs as well as much directly related infrastructure, including a refinery. It may be noted that pollution equipment, on which the 12 per cent sales tax was removed by the Budget, should also be eligible for accelerated depreciation when directly related to a mine. This will greatly assist the mineral industry in meeting its responsibilities towards the maintenance of the quality of our environment.

The replacement of the automatic, permanent percentage depletion allowance by a depletion allowance which has to be earned is designed to encourage the reinvestment of tax savings, resulting from various incentives, in further exploration and development. The amount of depletion earned will be directly related to the amount of exploration and development undertaken by a company. The capacity to earn depletion is extended to non-operators as well as operators. This provision applies to both the mining industry and the oil and gas industries.

Mining companies will now enjoy a broadened base for exploration and development write-offs with the inclusion of the cost of property acquisition; oil and gas already has this tax privilege. This change should help to stimulate the exploration for and discovery of new mineral deposits, thus broadening Canada's mineral resource base.

The provision of a tax benefit to Canadian mining and petroleum corporations conducting foreign exploration and development may at first glance appear anomalous. However, this is a positive step forward in assisting the international competitiveness of Canadian companies in world markets for resources and resource products and in enabling the growth of strong Canadian-based international corporations in the minerals industry.

The proposed general reduction in the corporate tax rate will, of course, benefit the minerals industry as it does all other sectors of our national economy. As a whole, the tax proposals will serve to maintain a vigorous, expanding and competitive minerals industry and, at the same time, will allow the activities of the industry to benefit more directly the Canadian economy.

AVAILABILITY OF CAPITAL

Increased employment in the mineral industry itself, and in those related industries which supply equipment, material and services to it, is dependent upon continuing growth in the mineral sector. That growth will be dependent upon the attraction of capital investment to the mineral industry in Canada in competition with opportunities for investment in the mineral industries of other countries.

The benefits to the mineral industry, which are proposed in the tax Bill, will go far toward providing a tax climate which will attract the necessary investment for growth in the mineral sector. The proposed graduated reduction in the general federal corporation tax rate to 46 per cent by 1976 will be further reduced through the abatement to the provinces of 25 percentage points of tax derived from the profits of mining companies - an increase of 15 points. The full deduction of exploration and development expenses, accelerated depreciation on initial assets and the provision for earning a depletion allowance, combine to produce a significant incentive to investment in the mining industry and one that places the industry on a competitive standing with other countries when such factors as productivity and political stability are taken into account.

The proposal in the White Paper to integrate the incomes of corporations and their shareholders would have placed shareholders in mining and petroleum companies at a disadvantage in comparison with those investing in companies in other industries because of the relatively low level of creditable tax which would have been earned by shareholders of mineral companies. The adoption of a dividend tax credit,

in preference to the integration system will encourage investment in the mineral industry on the same basis as other industry, and will not act to reduce the incentives specifically aimed at the industry.

Additional financial resources may be attracted to the mineral industry through the encouragement given to companies whose principal business is not mining or petroleum, to become involved in prospecting and exploration ventures. The limitation of foreign investments by pension plans, may encourage the managers of the plans to examine investment opportunities in the mineral sector which are in keeping with a safe and assured return.

The full deduction of interest on capital borrowed by a corporation to buy shares in other corporations will remove a disadvantage which Canadian resource companies experience in competing with foreign investors for an interest in other resource companies in Canada. This could well have been one of the factors contributing to the loss of ownership or control of Canadian companies to foreign buyers in the past.

Let me conclude this portion of my review of the tax proposals by stating that I believe that the provisions of the revised Income Tax Act will provide adequate encouragement to investors to participate in the dynamic growth of the mineral industry in Canada.

PROCESSING

In considering the high degree of export of our minerals, I feel certain that it would be desirable to have these minerals exported in the highest processed form possible. This objective is one of the most significant aims of my Department, and of the Department of Industry, Trade and Commerce, and, in this connection, I might note that some of the provinces have implemented policies in recent years designed to increase further processing.

The tax reform bill provides some level of incentive for further processing by allowing the cost of metal refineries,

when associated with new mines or a major expansion of an existing mine, to qualify for both accelerated depreciation and earned depletion. I am particularly pleased with this aspect of the bill as it constitutes a step towards a more comprehensive policy for increased further processing in Canada which, as I have said, is one of the principal goals of my Department.

PROSPECTORS

The prospector has always been an important and colourful figure on the Canadian mining scene. Many of the large mineral deposits which are still in production were discovered by the individual prospector travelling by canoe and on foot. Although the increasing difficulty of finding ore deposits has led to the development of sophisticated and extensive geoscientific equipment and techniques together with costly air transportation, I believe that the prospector will continue to play a significant role in the search for mineral deposits.

While the special exemption for capital gains of prospectors derived through the sale of his mineral discoveries will no longer apply, the provisions of the new Income Tax Bill will ensure the prospector of an equitable tax treatment of his lump-sum capital gain. He may purchase an annuity and thereby become taxable on the annual income which he received from the annuity.

Prospectors may receive payment for mineral discoveries in the form of shares in the company formed to develop a mineral discovery as well as in cash. Under the provisions of the tax Bill, the value of such shares received by the prospector will be deemed to have a zero value. Hence, no capital gain will occur upon receipt of the shares. The prospector will be subject to the tax only at the time that he sells the shares. The impact of the tax will, of course, be lessened through the new forward averaging and annuity rules.

The allowance of exploration costs against income for all sources will encourage companies, whose principal business is not mining, to enter the field of mineral exploration. Consequently, one may reasonably expect an increase in the demand for the services of prospectors and a broadening of the market for sale of mineral discoveries.

It is clear that new tax rules will continue to offer a significant incentive to prospectors to carry on in their traditional role as mine finders in this country.

ABATEMENT TO THE PROVINCES

Finally, I would comment on the proposal to provide a federal abatement of an additional 15 percentage points of tax to the provinces, beginning in 1977. As stated by the Minister of Finance, the reduction of federal taxes on mining profits recognizes that the provinces levy mining taxes and that in some cases tax rates for mines could be higher than rates on corporations in other industries. The increased abatement creates room for the provinces to leave their rates unchanged and thus direct the entire reduction through to mining corporations, or to revise their tax systems in light of the larger abatement.

This abatement proposal is a clear recognition that ours is a federal system in which the provinces have a need for revenue. The abatement proposal also provides the provinces with greatly increased flexibility for the management of their resources through the tax system, and for the attainment of their own mineral policy objectives according to their specific problems and needs. Clearly, the increased fiscal flexibility brings an increased responsibility to the Provinces for mineral policy and management, involving planning, implementation, evaluation and change to meet foreseeable situations.

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I should like to conclude my remarks by asking you to reflect on two facts.

Firstly - that the mineral sector of the economy encompasses a broad spectrum of activities which range from exploration to mineral based manufacturing and which relate to transportation, financing and marketing in both a domestic and world context, and

Secondly - that the mineral policies and programs at any level of government is one of the key elements in a complex and ever changing system of inter-dependent government and industry policies - policies which cover a wide range of solutions to economic and social development problems.

These facts are well known. However, they have new relevance and meaning for the Canada of today. Consider them in the light of the increasing complexity and changing demands within our society; in the light of the high degree of world interdependence; in the light of the increasing priority placed by industrial nations on their resource policies and attendant procurement and pricing strategies; in the light of the rapid almost uncontrollable rate of change of technology, communication and information flows; in the light of the resource strategies of developing countries and the attendant impact on world patterns of resource trade and demand; in the light of the growth of major economic trading blocs and the possible place of Canada; and finally and most importantly, consider them in the light of where Canada and its component provinces would like to be 25, 50 or 100 years from now.

I think you will conclude that we are faced with a new and overpowering urgency for federal and provincial governments to inter-act more systematically on a wider range of problems, and perhaps in the framework of new institutional arrangements. I look forward to conversing with you on how we might collectively meet the challenges of the 1970's.



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at the same time as it may be necessary to make changes in the design and in the
manufacture of the parts concerned and this is difficult
work to do. Also, with the present system, there is
no guarantee that these changes will not affect
the performance characteristics of the system.
However, there are difficulties in this respect, as
will be shown in the following section, and it is
desirable that the overall system be designed
so that the problems may be overcome. This
is a difficult problem but there are ways of
overcoming these difficulties, as will be shown
in the following section.

Now, with this general picture in mind, we
will consider some of the other difficulties
which may arise in the design and manufacture
of these systems and we will then consider
some of the ways in which these difficulties
can be overcome. The first difficulty is
the problem of the design of the system.
This is a difficult problem because the system
must be designed to meet certain requirements
which are difficult to define and to measure
and which are not easily quantifiable. For
example, the system must be able to
work correctly when it is required to do so,
but this is difficult to define and to measure.
The second difficulty is the problem of
the design of the system to meet certain
requirements which are difficult to define
and to measure. For example, the system
must be able to work correctly when it is
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and to measure.

As far as the first difficulty is concerned,
the system must be designed to meet certain
requirements which are difficult to define
and to measure. For example, the system
must be able to work correctly when it is
required to do so, but this is difficult to define
and to measure.